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# Determinants of SME Funding: The Case of Kuwait

## Abstract

The aim of this study is to explore the determinants of small and medium enterprises funding terms, and more specifically what factors at the individual and firm level influence demand for credit, funding obstacles, and access to credit.
The study uses questionnaires to define the characteristics of the founders and the firms and how they influence their funding terms.
The sample includes 172 small and medium enterprises in Kuwait in 2019. It includes 55 female owners (32%), and 117 male owners (68%). 75% of SME owners are under the age of 35. In terms of the SME-level characteristics, 62% of the ventures employ a full-time accountant, 67% pay more than 10,000 KWD as start-up capital, 57% of SMEs have more than 10 full-time employees, 80% are revenue-generating SMEs, 64% have done a feasibility study prior to starting their company. 37% of the SMEs in this sample have been established for more than five years.
Female entrepreneurs do not face more obstacles in funding than male entrepreneurs do and are not less likely to get access to credit; this would indicate no gender discrimination. Female entrepreneurs do less demand for capital. Founder's education has to do with to access to capital, such that entrepreneurs with higher education are more likely to access capital than those with lower education. Larger firms are more likely to access credit than smaller firms.
This study is the first to examine the factors that influence SME funding terms in the Kuwaiti market, it also examines the two levels of analysis to identify what individual (entrepreneur) level factors influence funding terms and what firm (SME) level factors influence funding terms in Kuwait.
The results of the study suggest that there is no gender discrimination regarding access to capital for SME owners. Nonetheless, female entrepreneurs are less likely to demand for credit, which may require some interventions to encourage females to obtain credit and grow their business. Bigger firms have easier access to capital, while newer and smaller businesses continue to face significant obstacles and challenges in accessing funding. Overall, results of the study suggest that it is important to develop more specialized funding instruments to serve newer and younger businesses.

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**JEL classification:** M13

## Introduction

Small and medium enterprises (SMEs) are a key pillar of economic development. Theory and practice have focused attention on the SME sector, as the study provides empirical evidence that suggests SMEs are a driving force for economic growth. Existing literature suggests that access to capital is correlated with SMEs contribution to a country's economy, while the capital as such is a constraint on SME contribution to the economy (Onakoya *et al.*, 2013; Bowen *et al.*, 2009).

Kuwait's 2035 vision has identified the entrepreneurship sector growth as one of the primary pillars of economic development (New Kuwait, 2020). The focus on supporting SMEs is driven by the government's attempts to diversify its oil-dependent economy. Accordingly, Kuwait's government has increased its efforts to support the SME sector, most notably by establishing "The National Fund for Small and Medium Enterprises Development" in 2013, with a total capital of $6 billion with the aim of investing in and developing the SME sector in Kuwait (Al Sharekh, 2018). Despite the large availability of funding for SMEs in Kuwait, the total loans given out to SMEs in Kuwait remains relatively low (Central Bank of Kuwait, 2019). One of the primary reasons for limited lending is that the access to financing remains low in Kuwait. Specifically, SMEs access to lending in the GCC is low primarily due to high rejection rates (IMF, 2019) despite all the government's efforts to increase financing to SMEs by encouraging the private sector, and the establishment of government-funded institutions such as the Kuwait National Fund for SMEs (Central Bank of Kuwait, 2019). According to numerous reports in this regard, SMEs constitute only 3% of Kuwait's GDP, which is far lower than the average of emerging economies (roughly 50%, Central Bank of Kuwait, 2019). For example, the share of overall SMEs lending is only 4%, and only 25% of SMEs in Kuwait have obtained financing from lending institutions, compared to a global average of 36% (Central Bank of Kuwait, 2019). The primary source of formal lending for Kuwaiti entrepreneurs is still the traditional banks, as the Kuwait's SME investment market is relatively immature, with a limited variety of funding resources such as venture capital and formal angel investors (Alabduljader, 2018). Overall, entrepreneurs in Kuwait face a challenge in obtaining financing.

Prior studies have demonstrated that individual and firm-level factors influence SME funding (Geiger, 2020). For example,women may have considerable

difficulty in accessing traditional funding sources,but they are also less likely to demand funding (Cowling *et al*., 2020; Geiger, 2020; Malmstrom *et al*., 2020; Kanze *et al*., 2018). In addition, firm size and age are factors that influence funding decisions (Andrieu *et al*., 2018), such that older firms and bigger firms have better access to funding. This study builds on prior research by examining how these individual and firm-level factors influence the funding process from: demand for funding, obstacles faced in funding, and eventually access to funding. We examine these research questions in the context of Kuwait. Accordingly, this study aims to investigate the factors that contribute to access to funding for entrepreneurs and SMEs in Kuwait. In other words, one of the questions we raise in our research is: what factors influence SME demand for funding, funding obstacles, and access to capital in Kuwait?

Specifically, we examine how firm and entrepreneur characteristics affect SME demand for credit, access to finance, and funding obstacles. In doing so, the study aims to enhance awareness to both entrepreneurs and public policy on ways to help develop entrepreneurs' ability to access funding. Moreover, the paper contributes to the existing literature in several ways. Firstly, it studies the determinants of SME access to finance, demand for credit, and financial obstacles in Kuwait, which is the first in recent literature, to the best of the authors' knowledge. Secondly, it takes into consideration both entrepreneur and firm factors, which provide a broader perspective on SME financing in Kuwait. In this paper the focus will be on the determinants of funding terms; demand for credit, access to finance and facing funding obstacles for SME in Kuwait.

## Literature Review

Access to funding helps spur SMEs potential to contribute to the national economy (Fernandez and Ali, 2015). Lack of access to capital, on the other hand, is a major challenge facing entrepreneurs, as lack of financial resources puts significant constraints on entrepreneurs' ability to grow their SME (Abor and Quartey, 2010). Moreover, the access to capital is further limited to SMEs compared to larger firms which are seen as riskier investments (Abor and Quartey, 2010). Furthermore, the difficulty in accessing capital is further enhanced in a country like Kuwait; prior studies point out that SME financial inclusion is the lowest in Arab countries (Fouejieu *et al*., 2020). This points out the significant challenge that a greater SME financial inclusion is related to greater contribution of the SMEs to economic development (Fouejieu *et al*., 2020). Accordingly, due to the important role of financing in the development of SME sector, we explore the factors that help increase

SME access to capital in Kuwait. We examine the most researched factors such as entrepreneurs' gender and education, firm size and age, and how they are related to demand for capital, funding obstacles, and access to capital.

## *SME Owner Gender and SME funding*

Prior studies have demonstrated that gender influences SME funding (Geiger, 2020). Specifically, women are less likely to demand funding, but are not less likely to secure founding (Cowling *et al.*, 2020; Geiger, 2020; Malmstrom *et al.*, 2020; Kanze *et al.*, 2018). Less clear, however, is whether women face considerable difficulty in accessing credit once they apply for funding; the research has found contradicting results (Cowling *et al.*, 2020; Geiger, 2020; Malmstrom *et al.*, 2020), women and men may be successful in obtaining funding; women may receive less funding (Kanze *et al.*, 2018; Lins and Lutz, 2016). Those prior studies shed light on what is known as gender funding gap; female entrepreneurs access lesser capital than male entrepreneurs do.

Apparently, the prior research indicates that women are less likely to demand funding (Cowling *et al.*, 2020). Mijid (2009) conducts a study to investigate whether the demand for credit by SME in the US differ between male and female entrepreneurs. He finds out that the mean probability of applying for loans is 44.6% for men, while it is only 32.2% for women. Similarly, Cowling *et al.* (2020) find out that women are less likely to demand funding. These findings are consistent with findings of other studies, such as those by Brooks bank *et al.* (2007), which demonstrate that men are more likely to seek funding. In addition, Constantinidis *et al.* (2006) find out that female-owned businesses are less likely to use external finance start-up funding such as bank loans and they have lower debt ratios than male entrepreneurs do. Garwe and Fatoki (2012) conduct a study to determine whether SMEs in South African are affected by gender differences in demand for debt. They also examine the fact that whether gender differences affect the firm and entrepreneurial characteristics of SMEs. Their study conducts a self-administered questionnaire and statistical analyses including t-test, logistic regression and descriptive statistics. The results find out that SMEs owned by female entrepreneurs do not have greater difficulty in accessing finance but are less likely to demand funding. Some of the reasons why females may display less demand for funding is due to higher fear, greater risk-aversion, and greater preference for non-formal lending sources (Hanedar *et al.*, 2014; Abdulsalah and Worthington, 2013; Watson *et al.,* 2009). In contrast, Coleman and Cohn (1999) argue that there are no significant differences between men and women in terms of

using a debt as a start-up funding, whereas factors such as firm age and size, and profitability are found to be significant predictors of financial leverage.

Prior research shows that while women may be less likely to demand funding, they are, in fact, more successful in accessing capital once they request funding (Cowling *et al.*, 2020). Cowling *et al.* (2020) have reasoned that female SMEs are less risky than the male ones due to the differences between men and women in risk taking; female entrepreneurs are more risk-averse and thus owning less risky businesses, thereby satisfying bank demands. In addition, De Andres *et al.* (2021) conduct a study of 80,000 Spanish companies started by solo entrepreneurs from 2004 to 2014 and find out that women are less likely to request funding, but there are no differences in access to credit between male and female entrepreneurs after the first year of establishing a business.

As men and women may be equally successful in accessing credit, women may receive less funding compared to men (Kanze *et al.*, 2018). The reasoning in different funding amounts may be due to the differences in the businesses started by men and women; women operate less risky ventures compared to men. For example, Robb and Wolken (2002) indicate that female-owned businesses differ from male-owned businesses, that impacts debt financing. Specifically, female-owned businesses are smaller, younger, and more likely to be organized as proprietorships. Cole *et al.* (2018) found that female-owned SMEs tend to be smaller and younger than male-owned SMEs, and are more likely to be organized as proprietorships, and are inclined to have shorter and fewer banking relationships. Similarly, Geiger (2020) finds out that women operate less risky ventures, with less growth potential, that may explain the differences in funding amount.

Overall, the past research suggests that in comparison with male entrepreneurs, female entrepreneurs are not less likely to get approved for lending, but are less likely to apply for lending due to the nature of their business, or their lack of desire for formal funding, or even their fear of funding (Esho and Verhoef, 2018; Shava, 2018; Robb and Wolken, 2002).

***H1a:*** *Female entrepreneurs are less likely to apply for credit compared to male entrepreneurs.*

***H1b:*** *Female entrepreneurs do not face more funding obstacles than male entrepreneurs.*

***H1c:*** *Female entrepreneurs have the same access to credit as male entrepreneurs.*

## *SME Owner Education and SME Funding*

Another factor that can impact SME funding is entrepreneurs' education level. The primary reason why more educated entrepreneurs are expected to have better access to funding is that more educated entrepreneurs are expected to lead more successful SMEs (Martin *et al.*, 2013). For example, (Fayolle *et al.*, 2006; Darroch and Clover, 2005; Rand, 2004; Gibb, 1993) argue that the higher educated the entrepreneur is, the greater the possibility of SME success, as education is sought to acculturate the person to a vocational mindset, increase personal motivation and knowledge acquisition and instill entrepreneurial attitude, skills and competency. Similarly, based on a sample of 1078 SMEs, Pinelli *et al.* (2002) findout that education level positively impacts the amount of fund raised. On the other hand, lack of business and entrepreneurial knowledge rank is one of the main reasons for smaller businesses failure (O'Gorman, 2001). The evidence, thus, would suggest that owner education leads to higher SME funding approval, as entrepreneurs with higher levels of education have more successful businesses, and thus would be more likely to get approval from formal lending institutions.

Nonetheless, the meta-analysis by Unger *et al.* (2011) shows that there is a positive relationship between education level and SME success, yet this relationship is relatively weak. Moreover, Davidsson and Honig (2003) find out that education level does not predict SME success. Therefore, there is inconclusive evidence that higher educated entrepreneurs are more successful than those who are less educated.

Focusing more specifically on the evidence between founder education and access to capital, prior research shows that entrepreneurs with higher education have better access to capital (Nguyen and Luu, 2013; Thanh *et al.,*2011; Fatoki and Odeyemi, 2010; Coleman, 2004; Bates, 1990). The reason is that SME owners with higher education are expected to have more successful firms, and thus are more likely to be accepted for a loan. Also,more educated entrepreneurs have far more knowledge and experience to better prepare and complete loan applications that formal lending institutions would like to see (Coleman, 2004). Similarly, Blumberg and Letterie (2008) point out that educated SME owners have an improved investment readiness, and therefore better access to finance.

Nonetheless, there is little evidence on what role entrepreneurs'education level has on SME funding. Therefore, we explore this question and examine whether-entrepreneurs' education level influences SME funding. We expect that SME owners with higher education get more access to finance due to their leading more

successful firms, as well as their ability to better prepare and present their loan applications.

***H2a:*** *Level of education is positively related to demand for credit, such that Entrepreneurs with higher levels of education will have greater demand for credit than those with lower levels of education.*

***H2b:*** *Level of education is negatively related to funding obstacles, such that entrepreneurs with higher levels of education will face fewer funding obstacles than those with lower levels of education*

***H2c:*** *Level of education is positively related to access to credit, such that entrepreneurs with higher levels of education will have more access to finance than those with lower levels of education.*

## *SME Characteristics and SME Funding*

SME characteristics play an important role in funding decisions. Funding institutions analyze the firm to determine whether or not to fund an SME. One of the characteristics that influences funding is firm size and age (Beck *et al.*, 2005). Firm size may be an indicator of firm success as well as the quality of financial statements used by banks to determine lending decisions (Beck *et al.*, 2005). Compared to high growth SMEs, smaller SMEs may have lower cash sales and thus face limited cash flow and profits (Khan *et al.*, 2021). Smaller SMEs face significant challenges that prevent them from achieving growth, particularly accessingto finance in the Arab region (Emine, 2012).Therefore, smaller firms may face more funding obstacles (Beck *et al.*, 2005; Schiffer and Weder, 2001). In an attempt to explore the reasons behind the limited access of SMEs to bank loans, Erdogan (2018) has conducted semi- structured interviews with 25 Turkish bank managers and has found out that SME ageis significantly relevant to SME access to bank loans.

Dong and Men (2014) have used World Bank Indicator Database (WBIS) to investigate how firm characteristics and cross-country differences affect SME financing. The study has selected a sample of 90,000 firms from WBES indicator database between 2002 and 2010 in 119 emerging markets. The study finds out that SME that are younger, and smaller in size face major financial challenges, hence they rely heavily on internal financing.

Overall, there are several reasons why smaller and newer SMEs have a harder time to access finance. First, new SMEs are seen as lacking experience and the

necessary track record for appropriate evaluation, there by increasing the risk of funding (Zhang, 2008). Second, younger firms are more likely to fail. The majority of new SMEs fail, with failure rates reaching 50% for firms under five years in developed countries, and a report by Kuwait's Chamber of Commerce indicating that 88% of new firms in Kuwait fail within five years. Third, younger firms often lack the required formal processes and procedures in place for operation. For example, smaller firms might lack formal accounting, budgeting, human resource departments, processes, and expertise. Without the adequate structures in place, the smaller firms are also seen as riskier investments for banks which are risk-averse and thus are less likely to provide funding (Nguyen and Luu, 2013; Black *et al*., 2012; Fatoki and Odeyemi, 2010). All of this supports the assertion that new (younger) and smaller SMEs are considered riskier firms, and thus are less likely to access capital. Therefore, older and bigger firms are more likely to access finance because of greater track record and history, which helps banks evaluate their performance. Our entire model is illustrated in figure 1 below.

***H3a:*** *SME size is negatively related to demand for credit, such that larger SMEs will demand more credit.*

***H3b:*** *SME size is negatively related to funding obstacles, such that larger SMEs will face less funding obstacles.*

***H3c:*** *SME size is positively related to access to credit, such that larger SMEs will have more access to credit.*

***H4a:*** *SME age is negatively related to demand for credit, such that older SMEs will demand more credit.*

***H4b:*** *SME age is negatively related to funding obstacles, such that older SMEs will face less funding obstacles.*

***H4c:*** *SME age is positively related to access to credit, such that older SMEs will have more access to credit.*

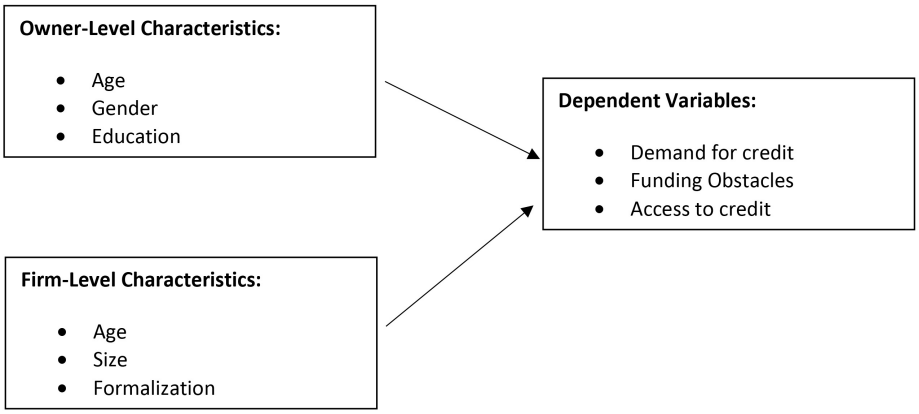


**Figure 1: Tested Model**

In developed countries, the primary source of lending for SMEs is smaller-banks rather than bigger banks. This is because larger banks rely on past financial data and strict objective measures to determine which businesses are approved for loans (Hakenes *et al*., 2015; Behr and Guettler, 2007). In contrast, smaller banks often rely on subjective information such as personal interviews, relationships, and overall assessment of the entrepreneur's characteristics (Hakenes *et al*., 2015; Behr and Guettler, 2007).When it comes to Kuwait, there is a lack of variety in terms of formal debt financing targeted towards SMEs (Alsharekh, 2008). It is clear that debt financing options favor SMEs with existing credit worthiness and predictable and sound cash flows and financial positions. It can be summarized that early-stage businesses would and can only depend on internal and equity financing and that debt can only be considered with growth and early maturity stages. It is worth mentioning, however, that the incorporation of the Kuwait National Fund for SME development is intended to change the SME funding dynamics as an allocated USD 6 million is purely directed to debt funding in the SME landscape, including new ventures with limited financial statements. Consequently, we add to literature by considering a relatively different market where there exist government mechanisms of financing to new ventures directly from the government. Has government-induced debt financing mechanism worked for newer and younger ventures? To answer the question, we conduct our detailed survey and empirical investigation.

## Methods

### *Sample and Analytical Procedures:*

To address the questions of this study we focus on existing SMEs in Kuwait. Data are collected via a self-administered questionnaire that was designed by several questioning techniques. The study employs yes-no question, single answer questions to cover the demographic details of the respondents and the key themes of the study such as experience, years of establishment, marketing scheme, the amount of paid-up capital, and venture sector. Due to lack of central data on SMEs in Kuwait, we employ a random sampling approach mixed with a snowball approach. Specifically, the authors of this paper have reached out to different SME owners through social media and their own network to request SME owners to participate and invite other participants. Meeting appointments have been arranged with SME owners personally, and the questionnaires have been distributed among them. Questions have been manually answered. We have contacted 500 SME owners. Only 172 have responded (34.4% response rate). To be eligible for inclusion in the study, we have used the definition of SMEs used by the Kuwait National Fund for Small and Medium Enterprise development, i.e. the firm must have no more than 150 employees, assets of less than 500,000 KWD, and less than 1.5 million KWD in revenues. Therefore, the final sample comprises 172 SMEs in Kuwait, and includes all participants that volunteered to participate.

Our approach is to analyze the role of firm and entrepreneur characteristics on SME funding terms; (a) demand for credit, (b) facing funding obstacles, and (c) access to finance. Those three variables are used as dependent variables and each one is tested against; 1) SME characteristics and 2) entrepreneur characteristics. All our measures were dichotomous variables such as (Yes/No). As a result, the data are analyzed by descriptive statistics and a probit regression, which is appropriate for dichotomous variables (Liu, 2004). A total number of 6 probit regression models have been developed, as can be seen below.

## Measures

### *Dependent Variables*

We use dichotomous question format (yes/no questions) for our dependent variables and created dummy variables accordingly. Firstly, to measure demand for credit, the respondents are asked whether they have approached a bank for credit. Binary number one isused to represent firms that need credit and zero to represent those that do not approach a bank for credit. Secondly, to measure

access to finance the respondents are asked whether the venture receives acceptance for a loan from the bank. Binary number one isused to represent firms that get acceptance for a bank loan and zero for those whose loan application are rejected. Thirdly, the respondents are asked whether they have experienced any funding obstacles before. Binary number one is for those firms that have faced any funding obstacles and zero otherwise.

***Demand for Credit****: Have you ever approached a bank for a loan in the venture? 1 for yes, 0 for no*

***Access to Finance****: Did the venture receive acceptance for a loan from the bank? 1 for yes, 0 for no*

***Funding Obstacles****: Has the venture experienced any funding obstacles? 1 for yes, 0 for no*

## *Independent Variables*

The independent variables are grouped under two categories A) Entrepreneur Characteristics B) SME Characteristics

***Entrepreneur Characteristics*** *include gender and education level.*

***Gender:*** *Male (0), Female (1)*

***Education:*** (0) Below undergraduate level, (1) Undergraduate level or above

## *SME Characteristics include Firm Age and Firm Size.*

***Firm Age:*** Less than 5 years (0), More than 5 years (1). We use five years as a cut-off because most new firms fail within 5 years, and so firms that have passed the five-year mark are considered older firms, while those less than five years are considered new firms.

***Firm Size:*** (0) More than 10 full-time employees, (1) Less than 10 full time employees. We use 10 as a cut-off to determine whether these are micro-firms or small and medium firms.

## *Control Variables*

We control several variables at the entrepreneur and SME level. For the models at the entrepreneur's level we control: (a) years of working experience, (b) whether the entrepreneur works in the public sector or private sector, (c) whether the entrepreneur is full time or part-time dedicated to their venture, (d) whether the entrepreneur is a full-time entrepreneur ("Chapter 5" labelled as per Kuwait's government) or an employee-entrepreneur ("Chapter 3" labelled as per Kuwait's

government), (e) the average number of working hours the entrepreneurs invest in their ventures, and (f) whether or not the entrepreneur works during the weekend.

At the firm-level, we control several variables that indicate the level of formalization and structure that exists in the SME, including: (a) whether the firm employs a full-time accountant or not, (b) whether there is a bonus structure available for employees or not, (c) whether there is a feasibility study done prior to starting the firm or not, (d) the legal structure of the SME, (e) whether the SME uses different marketing platforms, (f) whether they have an IP registered or not, and finally (g) the number of partners that exist in the firm. The existence of an accounting, bonus structure, legal structure, indicate the level of structure in the business, which may impact formal lending institution's decision to provide capital. In addition, the existence of the SME in marketing platforms and having an existing IP address give the impression of trustworthiness and the ability of lending institutions to evaluate the firm in different ways. Finally, the existence of different partners may reduce the risk of funding a sole entrepreneur, due to the ability to spread the risk across more than one individual.

## *Statistical Analysis*

We use probit regression instead of linear regression to analyze our results due to the nature of our variables. Specifically, probit regression is used when the model relies on dichotomous dependent variables (Liu, 2004).

Table 1 presents variable definitions and abbreviations and summary statistics for a sample of 172 SMEs in Kuwait.

**Table 1**
**Definitions and Abbreviations and Summary Statistics for Variables Included in Study**

| | Definition | Mean | Median | Std Dev. | Min | Max |
|---|---|---|---|---|---|---|
| **Dependent Variables** Has the venture experienced any funding obstacles? | Dummy variable equal to 1 for yes and 0 otherwise | 0.38 | 0 | 0.48 | 0 | 1 |
| Have you ever approached a bank for a loan in the venture? | Dummy variable equal to 1 for yes and 0 otherwise | 0.31 | 0 | 0.46 | 0 | 1 |
| Did the venture receive acceptance for a loan from the bank? | 1 Dummy variable equal to 1 for yes and 0 otherwise | 0.31 | 0 | 0.46 | 0 | 1 |

**Cont. Table 1**
**Definitions and Abbreviations and Summary Statistics for Variables Included in Study**

| | Definition | Mean | Median | Std Dev. | Min | Max |
|---|---|---|---|---|---|---|
| **Firm/Entrepreneur characteristics** Did the venture employa full-time accountant? (ACC) | Dummy variable equal to 1 for yes 0 for no | 0.62 | 1 | 0.48 | 0 | 1 |
| Do you set a bonus structure beyond the base salary for employees? (BN) | Dummy variable equal to 1 for yes 0 for no | 0.79 | 1 | 0.40 | 0 | 1 |
| Current number of full-time employees (EMP) | Dummy variable equal to 1 for less than 10 employees 0 for more | 0.57 | 1 | 0.49 | 0 | 1 |
| Did the venture have a feasibility study prior to start? (FS) | Dummy variable equal to 1 for yes 0 for no | 0.63 | 1 | 0.48 | 0 | 1 |
| Revenue Type (Products, Services, Both) (Rev) | Dummy variable equal to 1 for products or services 0 for both | 0.58 | 1 | 0.49 | 0 | 1 |
| Full-time, dedicated to venture or part-time (F/P) | Dummy variable equal to 1 for full-time 0 for part-time | 0.66 | 1 | 0.47 | 0 | 1 |
| Work on weekends? (WE) | Dummy variable equal to 1 for yes 0 for no | 0.82 | 1 | 0.38 | 0 | 1 |
| Average working hours per day (WH) | Dummy variable equal to 1 for 8 hours and above 0 for less than 8 hours | 0.56 | 1 | 0.49 | 0 | 1 |
| Years of Establishment (EST) | Dummy variable equal to 1 for more than five years 0 for less | 0.36 | 0 | 0.48 | 0 | 1 |
| Facebook (FB) | Dummy variable equal to 1 for yes 0 for no | 0.40 | 0 | 0.49 | 0 | 1 |
| Instagram (Ins) | Dummy variable equal to 1 for yes 0 for no | 0.89 | 1 | 0.30 | 0 | 1 |
| Snapchat (SN) | Dummy variable equal to 1 for yes 0 for no | 0.37 | 0 | 0.48 | 0 | 1 |
| Did the venture havea website? (Web) | Dummy variable equal to 1 for yes 0 for no | 0.58 | 1 | 0.49 | 0 | 1 |
| IP Registered | Dummy variable equal to 1 for yes 0 for no | 0.46 | 0 | 0.50 | 0 | 1 |
| Legal Structure (SP, Partnership WLL, Partnership OPC) (LG) | Dummy variable equal to 1 for Partnership WLL 0 for other | 0.60 | 1 | 0.48 | 0 | 1 |

**Cont. Table 1**
**Definitions and Abbreviations and Summary Statistics for Variables Included in Study**

| | Definition | Mean | Median | Std Dev. | Min | Max |
|---|---|---|---|---|---|---|
| Number of Partners in Venture (No) | Dummy variable equal to (1)less than 3 partners, (0) for more | 0.62 | 1 | 0.48 | 0 | 1 |
| Age Range | Dummy variable equal to 1 if less than 35 0 if more than 35 | 0.75 | 1 | 0.43 | 0 | 1 |
| Years of Work Experience before Venture | Dummy variable equal to (1) more than 10 years, (0) less than 10 years | 0.26 | 0 | 0.44 | 0 | 1 |
| Educational Background (High School, Diploma, Undergrad, Post Under grad | Dummy variable equal to 1 if undergraduate and above 0 if high school or diploma | 0.73 | 1 | 0.44 | 0 | 1 |
| Worked for Government or Private Sector before Venture (G/P) | Dummy variable equal to 1 for government 0 for private sector | 0.31 | 1 | 0.39 | 0 | 1 |
| Social Security 3rd or 5th Chapter(SS) | Dummy variable equal to 1 for Chapter 5 zero for Chapter 3 | 0.59 | 1 | 0.49 | 0 | 1 |
| Gender | Dummy variable equal to 1 for female, 0 for male | 0.31 | 0 | 0.46 | 0 | 1 |

Table 2 presents the correlation matrix on the main variables of the dataset. Table 3 presents the results from the probit regressions of the firm characteristics (Models 1, 2, 3) and entrepreneur characteristics (Models, 4, 5, 6) and their effect on SME demand for credit, access to finance, and facing funding obstacles. Estimated coefficients are given with standard errors in parentheses underneath.

**Table 2**
**Correlation Matrix for the Main Variables in the Dataset.**

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Funding Obstacles | 1 | | | | | | | | | | | | | | | | | | | | |
| 2 | Have you approached a bank for a loan in the start of the business? | 0.24 | 1 | | | | | | | | | | | | | | | | | | | |
| 3 | Did the venture receive acceptance for a loan from the bank? | 0.22 | 0.59 | 1 | | | | | | | | | | | | | | | | | | |
| 4 | Gender | -0.03 | -0.09 | -0.12 | 1 | | | | | | | | | | | | | | | | | |
| 5 | Age Range | -0.04 | -0.08 | -0.14 | 0.02 | 1 | | | | | | | | | | | | | | | | |
| 6 | Number of Partners in Venture | 0.19 | 0.02 | -0.02 | -0.01 | -0.10 | 1 | | | | | | | | | | | | | | | |
| 7 | Educational Background (High School, Diploma, Undergrad, Post Undergrad) | 0.03 | 0.09 | 0.14 | -0.02 | -0.10 | -0.10 | 1 | | | | | | | | | | | | | | |
| 8 | Years of Work Experience Before Venture | 0.04 | 0.03 | 0.12 | -0.02 | -0.47 | -0.03 | -0.06 | 1 | | | | | | | | | | | | | |
| 9 | Worked for Government or Private Sector before Venture | 0.05 | -0.06 | -0.07 | 0.14 | -0.15 | 0.06 | -0.07 | 0.15 | 1 | | | | | | | | | | | | |
| 10 | Full-time, dedicated to venture or part-time | 0.11 | -0.04 | 0.01 | -0.09 | -0.07 | 0.01 | 0.08 | 0.01 | -0.01 | 1 | | | | | | | | | | | |
| 11 | Social Security 3rd or 5th Chapter | 0.10 | -0.12 | -0.07 | -0.06 | -0.08 | 0.06 | 0.03 | 0.01 | 0.06 | 0.25 | 1 | | | | | | | | | | |

**Cont. Table 2**
**Correlation Matrix for the Main Variables in the Dataset.**

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 12 | Average working hours per day | 0.12 | 0.04 | 0.02 | -0.10 | -0.07 | 0.12 | 0.14 | -0.05 | -0.18 | 0.39 | 0.06 | 1 | | | | | | | | | |
| 13 | Work on weekends? | -0.02 | -0.05 | 0.02 | 0.05 | 0.05 | 0.01 | -0.03 | 0.10 | -0.05 | 0.06 | 0.11 | 0.06 | 1 | | | | | | | | |
| 14 | Years of Establishment | -0.08 | 0.06 | 0.10 | 0.05 | -0.31 | -0.09 | -0.01 | 0.11 | 0.10 | 0.18 | 0.05 | 0.04 | -0.03 | 1 | | | | | | | |
| 15 | Revenue Type (Products, Services, Both) | -0.20 | -0.06 | -0.22 | 0.00 | 0.03 | -0.17 | 0.06 | -0.02 | -0.02 | -0.11 | -0.02 | -0.01 | -0.05 | -0.09 | 1 | | | | | | |
| 16 | Did the Venture have a website? | 0.18 | 0.17 | 0.17 | -0.18 | -0.11 | -0.05 | 0.03 | 0.09 | -0.15 | 0.07 | 0.01 | 0.18 | -0.02 | 0.18 | -0.03 | 1 | | | | | |
| 17 | Instagram | 0.00 | 0.00 | 0.01 | 0.11 | 0.11 | 0.00 | 0.01 | -0.14 | 0.07 | -0.04 | -0.08 | 0.01 | 0.04 | -0.02 | 0.02 | -0.02 | 1 | | | | |
| 18 | Facebook | 0.09 | 0.08 | 0.03 | -0.18 | -0.08 | 0.00 | -0.03 | -0.01 | 0.02 | 0.08 | 0.04 | 0.15 | 0.06 | 0.12 | -0.07 | 0.29 | 0.20 | 1 | | | |
| 19 | Did the Venture employ a full-time accountant? | 0.15 | 0.13 | 0.07 | -0.01 | -0.15 | -0.01 | 0.16 | -0.02 | -0.03 | 0.23 | 0.12 | 0.28 | -0.04 | 0.19 | -0.08 | 0.04 | 0.09 | 0.10 | 1 | | |
| 20 | Legal Structure (SP, Partnership WLL, Partnership OPC) | 0.13 | -0.02 | -0.03 | -0.15 | -0.01 | 0.12 | 0.27 | -0.07 | -0.15 | 0.07 | -0.02 | 0.07 | -0.03 | -0.12 | 0.03 | 0.03 | -0.12 | -0.13 | 0.22 | 1 | |
| 21 | Current Number of Full-Time Employees | -0.14 | -0.22 | -0.22 | 0.12 | 0.28 | -0.04 | -0.09 | -0.11 | 0.09 | -0.30 | -0.19 | -0.17 | -0.06 | -0.27 | 0.19 | -0.17 | -0.07 | -0.20 | -0.34 | -0.09 | 1 |

We conduct probit regression to test our hypotheses. Specifically, we create several models as explained in detail next. Entrepreneurial characteristics considered are the entrepreneur's gender, age, educational level, previous experience, working hours at the venture, and whether they work on weekends or not. The mentioned variables are intended to understand the behavior of the entrepreneur, background and level of commitment and its relation to funding: Does gender affect funding terms? Does experience increase the change of debt funding?

**Model 1**: Demand for Credit = $\beta 0$ + $\beta 1$ Gender + $\beta 2$ Age + $\beta 3$ Education + $\beta 4$ Experience + $\beta 5$ G/P + $\beta 6$ F/P + $\beta 7$SS + $\beta 8$ WH + $\beta 9$WE + $\varepsilon$

**Model 2**: Access to Finance = = $\beta 0$ + $\beta 1$ Gender + $\beta 2$ Age + $\beta 3$ Education + $\beta 4$ Experience + $\beta 5$ G/P + $\beta 6$ F/P + $\beta 7$SS + $\beta 8$ WH + $\beta 9$WE + $\varepsilon$

**Model 3:** Funding Obstacles = $\beta 0$ + $\beta 1$ Gender + $\beta 2$ Age + $\beta 3$ Education + $\beta 4$ Experience + $\beta 5$ G/P + $\beta 6$ F/P + $\beta 7$SS + $\beta 8$ WH + $\beta 9$WE + $\varepsilon$

This section deals with the impact of firm characteristics on SME Funding terms (demand for credit, access to finance, and funding obstacles). Our models are estimated with the probit technique, since our outcome variables are discrete.The probit model is suitable for dichotomous variables. The estimated models of a specific dependent variable can be constructed as:

**Model 4**: Demand for Credit = $\beta 0$ + $\beta 1$ ACC + $\beta 2$ BN + $\beta 3$ EMP + $\beta 4$ EST + $\beta 5$ FB + $\beta 6$ SN + $\beta 7$ TW + $\beta 8$WEB + $\beta 9$ INS + $\beta 10$ FS + $\beta 11$ IP + $\beta 12$ LG + $\beta 13$ NO + $\beta 14$REV + $\varepsilon$

**Model 5**: Access to Finance = $\beta 0$ + $\beta 1$ ACC + $\beta 2$ BN + $\beta 3$ EMP + $\beta 4$ EST + $\beta 5$ FB + $\beta 6$ SN + $\beta 7$ TW + $\beta 8$WEB + $\beta 9$ INS + $\beta 10$ FS + $\beta 11$ IP + $\beta 12$ LG + $\beta 13$ NO + $\beta 14$REV + $\varepsilon$

**Model 6:** Funding Obstacles = $\beta 0$ + $\beta 1$ ACC + $\beta 2$ BN + $\beta 3$ EMP + $\beta 4$ EST + $\beta 5$ FB + $\beta 6$ SN + $\beta 7$ TW + $\beta 8$WEB + $\beta 9$ INS + $\beta 10$ FS + $\beta 11$ IP + $\beta 12$ LG + $\beta 13$ NO + $\beta 14$REV + $\varepsilon$

## Results

Table 3 includes the result of our probit regression analysis

**Table 3**
**Probit Regression Results**

| Table 3 | Firm Characteristics | | | Entrepreneur Characteristics | | |
|---|---|---|---|---|---|---|
| | Demand for Credit Model 1 | Access to Finance Model 2 | Funding Obstacles Model 3 | Demand for Credit Model 4 | Access to Finance Model 5 | Funding Obstacles Model 6 |
| **Constant** | 0.257 | 0.062 | -0.809 | -0.210 | -0.460 | -0.468 |
| | (0.563) | (0.593) | (0.579) | (0.500) | (0.510) | (0.498) |
| **Employs full-time accountant (ACC)** | -0.052 | 0.048 | 0.370 | | | |
| | (0.267) | (0.278) | (0.252) | | | |
| **Bonus beyond salary to employees (BN)** | -0.059 | -0.209 | -0.197 | | | |
| | (0.289) | (0.318) | (0.281) | | | |
| **Number of full-time employees (EMP)** | -0.591** | -0.556** | -0.128 | | | |
| | (0.252) | (0.265) | (0.243) | | | |
| **Establishment (EST)** | -0.026 | 0.1103 | -0.511** | | | |
| | (0.245) | (0.256) | (0.246) | | | |
| **Venture has Facebook (FB)** | -0.098 | -0.065 | -0.033 | | | |
| | (0.270) | (0.279) | (0.264) | | | |
| **Venture has snapchat (SN)** | 0.140 | 0.007 | 0.435 | | | |
| | (0.265) | (0.275) | (0.271) | | | |
| **Venture has twitter (TW)** | 0.059 | -0.113 | -0.100 | | | |
| | (0.265) | (0.276) | (0.257) | | | |
| **Venture has awebsite (WEB)** | 0.639** | 0.627** | 0.570** | | | |
| | (0.251) | (0.254) | (0.241) | | | |
| **Venture has Instagram (INS)** | -0.409 | 0.038 | -0.121 | | | |
| | 0.363 | (0.379) | (0.370) | | | |
| **Did the venture have a feasibility study prior to start? (FS)** | -0.116 | 0.167 | 0.020 | | | |
| | (0.231) | (0.245) | (0.229) | | | |
| **IP registered (IP)** | -0.190 | -0.209 | 0.192 | | | |
| | (0.235) | (0.239) | (0.228) | | | |
| **Legal structure (LG)** | -0.024 | -0.198 | 0.313 | | | |
| | (0.239) | (0.250) | (0.239) | | | |
| **Number of partners (NO)** | -0.113 | -0.147 | 0.473** | | | |
| | (0.227) | (0.234) | (0.225) | | | |
| **Revenue type (REV)** | -0.428* | -0.591** | -0.476** | | | |
| | (0.230) | (0.241) | (0.223) | | | |
| **Gender** | | | -0.431* | -0.370 | -0.075 | |
| | | | (0.234) | (0.244) | (0.217) | |
| **Age** | | | -0.392 | -0.327 | 0.014 | |
| | | | (0.269) | (0.275) | (0.26) | |
| **Education** | | | 0.248 | 0.475* | 0.035 | |
| | | | (0.250) | (0.267) | (0.235) | |

**Cont. Table 3**
**Probit Regression Results**

| Table 3 | Firm Characteristics | | | Entrepreneur Characteristics | | |
|---|---|---|---|---|---|---|
| **Experience** | 0.145<br>(0.268) | 0.211<br>(0.271) | 0.121<br>(0.257) | | | |
| **Worked for government or private sector before venture(G/P)** | -0.181<br>(0.236) | -0.231<br>(0.246) | 0.160<br>(0.221) | | | |
| **Full-time dedicated to venture or part time(F/P)** | 0.046<br>(0.251) | -0.013<br>(0.269) | 0.177<br>(0.237) | | | |
| **Social security third or fifth chapter (SS)** | -0.097<br>(0.219) | -0.244<br>(0.232) | 0.205<br>(0.208) | | | |
| **Working hours per day (WH)** | 0.054<br>(0.234) | 0.018<br>(0.246) | 0.272<br>(0.223) | | | |
| **Working on weekends(WE)** | 0.039<br>(0.280) | 0.143<br>(0.297) | -0.106<br>(0.265) | | | |
| **Total observations** | 170<br>156 | 170<br>170 | 157<br>170 | | | |
| **Ob = 1** | 50 | 48 | 64 | 51 | 49 | 66 |
| **McFadden R2** | 0.115 | 0.124 | 0.131 | 0.05 | 0.06 | 0.029 |
| **S.D. dependent var.** | 0.456 | 0.463 | 0.485 | 0.45 | 0.46 | 0.488 |
| **LR statistic** | 23.867 | 24.038 | 29.560 | 10.56 | 11.74 | 6.716 |
| **S.E. of regression** | 0.443 | 0.447 | 0.461 | 0.45 | 0.46 | 0.493 |
| **Log likelihood** | -91.051 | -84.270 | -97.812 | -98.56 | -91.58 | -110.193 |

* Significant at the 10% level, ** Significant at the 5% level

## *Descriptive Statistics*

Our sample includes 55 female owners (32%), and 117 male owners (68%). Our sample includes a young population with 75% of SME owners under the age of 35, and 27% having more than 10 years of work experience prior to starting the venture. In addition, 74% of the entrepreneurs in our sample had a higher education degree (university degree) or higher. Surprisingly, the majority of the founders in our sample (81%) work in the public sector. This reflects the normal workforce-dynamics in Kuwait's economy with more than 85% of Kuwaiti nationals working in the public sector. While entrepreneurs receiving funding from Kuwait's National fund for Small and Medium enterprises are required to be full-time entrepreneurs, the majority of Kuwaiti entrepreneurs are hybrid, i.e.

entrepreneurs-individuals who combine full-time employment with entrepreneurship (Raffiee and Fang, 2014). In fact, full-time entrepreneurs represent a little more than 1% of the total workforce (Berkeley Research Group, 2017). The public sector in Kuwait provides more comfortable, higher paying jobs to Nationals (Khatib, 2018; IMF, 2017). It seems that the majority of entrepreneurs are reluctant to go full-time into entrepreneurship and leave the safety net of the government, which may impact entrepreneurs' drive and risk-taking required to grow a new venture, and instead preferring to mix both full time employment and entrepreneurship (Yoon and Solomon, 2017; Hertog, 2010). Therefore, it is important to take this sample into consideration and how it generalizes to other contexts with more full-time entrepreneurs, as hybrid-entrepreneurs who own less high-growing companies may be less likely to access finance (Hertog, 2010). 70% of the entrepreneurs in the sample are first-time entrepreneurs, but 53% currently own more than one business. Finally, 63% of entrepreneurs indicated that their education had helped them in their entrepreneurial aspirations.

In terms of the SME-level characteristics, 62% of the ventures employ a full-time accountant, 67% pay more than 10,000 KWD as start-up capital, 57% of SMEs have more than 10 full-time employees, 80% are revenue-generating SMEs, 64% have done a feasibility study prior to starting their company. 37% of the SMEs in our sample had been established for more than five years. In addition, 61% of our sample have less than 3 partners. Finally, 87% of the SMEs in our sample have shown a desire to expand their operations, thus highlighting the possible important role of funding in their aspirations.

In terms of our dependent variables, 30% out of those who applied for funding have approached banks for funding, 30% of the SMEs have faced funding obstacles, and finally 28% have been approved for lending from a bank (i.e.only 2% of those applying for funding got rejected).

## *Entrepreneur Characteristics vs. Funding Terms*

The following is a summary of the results on whether entrepreneur characteristics affect the funding of SMEs, namely access to finance, demand for finance and facing funding obstacles. Our results show that male entrepreneurs are more likely to have demand for credit than female entrepreneurs, therefore supporting Hypothesis 1a. We also do not find a relationship between gender and funding obstacles and access to funding. Therefore, our results support Hypotheses 1b and 1c, that gender plays no role in terms of funding obstacles and access to funding.

Concerning entrepreneur education, we do not find support for hypotheses 2a and 2b. Specifically, entrepreneur education has nothing to do with funding demand or funding obstacles, and entrepreneurs with lower levels of education do not demand less funding or face more funding obstacles. Nonetheless, our results show that entrepreneurs with higher education have better access to finance than the ones with just high school degree or diploma. Therefore, hypothesis 2c is supported.

## *Firm Characteristics vs. Funding Terms*

We summarize the results related to whether firm characteristics affect funding of SMEs (access to finance, demand for finance, and facing funding obstacles). Hypotheses 3abc explored the relationship between firm size and funding terms. We find that smaller firms (less than 10 employees) have less demand for credit, therefore supporting hypothesis 3a. This is unsurprising as smaller firms might have less need for such funding. We do not find support for hypothesis 3b, as there is no relationship found between SME size and funding obstacles. This result can be interpreted by considering the result of hypothesis 3a. More specifically, smaller firms may not face more obstacles because they are less likely to apply for funding in the first place. We do find support for hypothesis 3b, whereby size of the SME was negatively related to access to funding. Specifically, smaller SMEs (less than 10 employees) are less likely to get access to funding, while larger forms have easier access to funding, that supports the findings of Coleman and Cohn (1999) and Beck *et al*. (2006b, 2008).

Hypotheses 4abc explore the relationship between firm age and funding terms. Our results show that SMEs with more than five years of operations are less likely to face funding obstacles than younger firms, that is in line with main stream literature, and in support of hypothesis 4b. We do not find support for hypothesis 4a that older firms are more likely to demand funding than newer firms. Similarly, we do not find support for hypothesis 4c, as no effect has been found upon the age of the firm and its access to funding. In other words, older firms are not more likely to access funding compared to newer firms. These findings are similar to the findings of Dong and Men (2014); Abor and Biekpe (2007); Beck *et al*. (2006) and Coleman and Cohn (1999).

## Discussion

The finding that male entrepreneurs are more likely to demand credit than female entrepreneurs is in line with the findings of (Roper and Scott, 2009; Mijid, 2009; Brooksbank *et al.*, 2007; Midill *et al.*, 2006; Constantinidis *et al.*, 2006) studies. One interpretation is that female entrepreneurs' perception of debt is highly risky. Female SME owners have been characterized as more risk-averse, and thus are less likely to undertake liabilities in the form of debt (Cowling *et al.*, 2020). Moreover, the results suggest that gender does not impact access to finance that supports prior results (Freel *et al.*, 2012). We are encouraged by the finding that female entrepreneurs do not have less access to funding compared to male entrepreneurs. Our results suggest that gender does not affect funding obstacles or access to funding, which is in line with prior research. This also suggests that there is no gender discrimination when it comes to funding SMEs in Kuwait. Our findings indicate that Kuwait is doing well in terms of achieving its goal of creating an inclusive community for entrepreneurs, which is one of the primary goals of Kuwait's National Fund for Small and Medium Enterprise Development. Kuwait has one of the highest rates of female participation in the workforce in the Arab world and has been successful in achieving high rates of educational attainment for women, with women accounting for 67% of university graduates (GCC Stat, 2021; Young, 2016). Our results similarly suggest that women in entrepreneurship in Kuwait do not face significant funding challenges compared to males. It is important to note that we do not interpret our results to mean that women in Kuwait do not face more significant challenges compared to males, as there may be different kinds of cultural or societal challenges (Al Mutairi and Fayez, 2015), which are not part of this study.

More specifically, when exploring the effect of entrepreneur characteristics on funding terms, the results do show that females are not discriminated against as they are not less likely to access funding. Nonetheless, the results are in line with prior research conducted in other countries, as it shows that females are less willing to demand funding. The reason for this may be that females are more risk-averse and thus fearing the responsibility and costs associated with funding, or that they may fear business expansion. Therefore, the results of our study indicate that the policy measured by the Kuwait National Fund for SMEs or by educational institutions may put some effort in encouraging female entrepreneurs to take more risks.

We do not find a relationship among entrepreneur education,funding demand and funding obstacles. One interpretation of this result could be that entrepreneurs with lower education may rely on external experts to help them deal with funding obstacles. Nonetheless, we do find support for our hypothesis that entrepreneurs with higher levels of education do get higher access to funding. This result is consistent with Leitao and Franco (2011); Bowen *et al.* (2009), Neuberger and Rathke (2009). A plausible interpretation is that educated entrepreneurs have better managerial competencies enhancing performance and increasing the banks' willingness to provide. In other words, while less educated entrepreneurs may rely on external expertise to help them overcome funding obstacles and complete the requirements to apply for funding, banks may be less willing to fund entrepreneurs with lower education as they might be perceived as lacking the requisite expertise to manage their businesses, and thus are viewed by lending institutions as more risky. According to Rauch and Rijsdijk (2013), the educated entrepreneurs have deep knowledge of business propositions, are more linked to strategic alliances, and prepare more organized loan proposals which make their chances of getting a bank loan much higher. Other entrepreneur variables such as experience, professional background and working hours have no significant impact on demand for credit nor access to finance.

In terms of firm characteristics, we find that smaller firms are less likely to demand funding, and are also less likely to receive funding. These results are unsurprising as smaller firms may not need funding to expand, and those who do apply for funding may have a harder time accessing credit due to the small size of the venture,which makes them unattractive for large lending institutions (Hakenes, 2015; Beck, 2005). We also find out that newer firms face more funding obstacles, which could be explained by the higher risk associated with new ventures. Kuwait has a lack of diversified funding market, with the majority of financing to SMEs coming from large banks (Alabduljader, 2018). These large institutions are less willing to invest in new firms, due to the higher uncertainty and risk associated with such firms (Alabduljader, 2018). From the creditor side, it is complicated to evaluate SME's creditworthiness and, therefore, many banks hesitate to grant credit to SMEs due to the uncertainty of venture success in generating sufficient cash flows to repay its debt obligations (Gregory *et al.*, 2005). Creditors and lending institutions are hesitant to give out loans to SMEs due to the high risk associated with lending new and small businesses. This risk is compounded in the Kuwait ecosystem due to the inability of banks to charge higher interest loans to these riskier businesses (Gulf Bank, 2021). In addition, if the business fails, banks have limited ability to cover their losses.

Accordingly, newer firms in Kuwait have less resources for funding and may face higher obstacles when applying for funding from large banks. The finding that firm age is unrelated to demand for funding can be explained by prior studies that demonstrate that the majority of small businesses remain small (Hertog, 2010). In other words, many entrepreneurs do not grow their businesses, and would rather focus on efficiency and stability than scale. This interpretation may be supported by the finding that 53% of the entrepreneurs in our sample have more than one venture. Thus, it may be that entrepreneurs in Kuwait prefer opening several small ventures, as opposed to focusing on scaling one venture. Our overall results show that both entrepreneur and SME characteristics may impact funding terms.

## Contributions

First, it is important to note that only 22% of small and medium business owners have approached a formal lending institution for a loan to start their business, while only 30% of the small and medium businesses owners have ever approached a formal lending institution for a loan, even after starting their business. It is unclear why the majority of SMEs in our sample do not attempt to access capital; it could be due to lack of variety of funding resources and unwillingness of established lending institutions in Kuwait to finance small SMEs, or due to the nature of SMEs being small and entrepreneurs' lack of desire to grow the business. Part of the reason for the relatively low demand for funding may be due to the lack of desire by entrepreneurs to grow their business. As previously mentioned, many entrepreneurs of the sample are government employees, and so the motivation to start a business may be driven by the desire to access supplemental income (Al Mutairi and Fayez, 2015; Madichie and Gallant, 2012). The desire for additional income from the SME, also impacts the type of businesses that entrepreneurs open in Kuwait, as many of the owners may be satisfied with owning a small business with little scale (Khan *et al.*, 2021). In fact, Many of the small and medium businesses in Kuwait are low impact, low growth companies that operate in multiple sectors such as gyms, cafes, restaurants, and retail (Hertog, 2010). In developing countries, SMEs contribute to roughly 30% of GDP, while their share of GDP rises to 50-60% in more developed countries. In contrast, Kuwait's SME sector contributes to roughly 3% of GDP, indicating that SMEs in Kuwait are mostly low-value adding businesses (Hertog, 2010). These businesses also have done little to employ nationals, with more than 85% of Kuwaiti nationals being employed in the public sector. Therefore, it is important to help educate and motivate the future generation to start more high-growth

potential ventures, as these types of ventures employ a larger number of the population once they grow and thus contribute more to GDP.

Moreover, it is imperative to develop the financial market to help support the development of the SME sector in Kuwait. Kuwait's lending environment is not yet developed to address the needs of small and medium enterprises. Generally, entrepreneurs in Kuwait have limited formal lending institutions they can rely on big banks and the National Fund of Kuwait for Small and Medium enterprises. The Kuwaiti market has not been yet developed to offer a variety of lending institutions tailored to SME needs such as formal micro-lending, crowdfunding, venture capital, smaller banks (Alabduljader, 2018). New businesses have more limited options for lending as banks generally do not lend to new (less than 3 years) businesses (Alabduljader, 2018). The lack of variety may explain why Kuwait's SMEs in general, have limited access to capital, with SMEs in Kuwait receiving roughly 4% of total loans in the market, compared to 8% in UAE (Central Bank of Kuwait, 2019; Abubaker and Hussein, 2010). It is also important to note that only 37% of small and medium enterprise owners indicate that they might get involved with the National Fund of Kuwait for Small and Medium Enterprises. While recent organic trends have emerged, with some venture capital funds appearing, Kuwait's government may focus specifically on developing the financial market and help develop, support, and regulate formal lending institutions that serve SMEs in particular.

In terms of the role of entrepreneur's education to funding, our results also indicate that while less educated entrepreneurs do not face more obstacles, they are less likely to get access to funding. The descriptive statistic of our sample is a cause of concern for entrepreneurship education in Kuwait, as 37% of entrepreneurs believe that their education do not contribute to their journey in managing a small business. In other words, lending institutions seem to give importance to the education of the entrepreneur, even if entrepreneurs do not face more obstacles due to their education level. A founder's education may signal their competency and ability to manage and run the business, as well as preparing higher quality funding applications. This result may be supported by our descriptive statistics, which show that 63% of founders indicate that their education has contributed to their entrepreneurial endeavors.

Interpreting this result, one might investigate the state of the level of education in Kuwait and address the challenges of improving entrepreneurship education. This is important in a way that entrepreneurs of our sample indicate that education

does not contribute much to their entrepreneurship journey, whereas lending institutions seem to place value to entrepreneurs with more education, and are more likely to grant funding to entrepreneurs who have at least a college degree compared to those who do not. Entrepreneurship education is a relatively small discipline in Kuwait's educational systems, and further development is needed in terms of the variety and quality of the content delivered to students. Public policy and entrepreneurship education may focus on developing and supporting more high-growth entrepreneurs by providing specialized courses and topics related to high-growth ventures such as scalability, high-venture growth courses, technology-based businesses.

## Limitations and Future Directions

Like any other empirical studies, this research paper is not without some limitations. One of the limitations of the study is that it based on a sample of entrepreneurs from Kuwait, which limits generalizability. Although our results are in line with prior research in other contexts, future research may explore our hypotheses in different samples within different contexts. In addition, this sample examines specific firm and entrepreneur characteristics, but not others. Selecting the characteristics to study is based upon prior research which indicates that entrepreneur gender and education have considerable influence on new venture success. It also indicates that SME age and size exercise influence on venture success. We have also attempted to include a wider range of variables as part of our control variables. The results do not indicate a significant relationship between the other characteristics and funding terms. Nonetheless, future research may examine other characteristics that may influence venture funding. For example, entrepreneur's personality, industry experience type and years of industry experience, the quality and depth of the network of the entrepreneur, are all factors that may influence funding terms, and future research may look into these characterizes.

Interestingly, although not part of our hypotheses, the findings also indicate that whether the venture has a website or not, it has a significant impact on the funding terms of SME. Debt providers seem to place emphasis on transparency and a company's image which reflects its core operations and managerial capabilities. Lastly, regarding the revenue type the venture has, it finds out that ventures with one type of revenue either a product or services are less likely to have more demand for finance, and better access to finance. Perhaps the result may shed

light on aspiring entrepreneurs towards focus and product concentration as opposed to diversification and horizontal integration.

## Conclusion

The goal of this paper is to explore those individual and firm level factors that influence the decision to access funding, funding obstacles, and access to funding in Kuwait. From an entrepreneur's perspective, we find out that male founders are more inclined to demand credit than female founders are. However, there is no discrimination against women when it comes to access to capital; both female and male entrepreneurs have equal access to capital. In addition, founders who have a college degree are more likely to obtain debt financing, if needed, than those with high school diploma. This solidifies the importance of education in the entrepreneurial ecosystem and the credibility it postulates to creditors and funding institutions. From a firm perspective, we find that smaller and younger firms have more difficulty in accessing capital. It is clear that a proper structure, governance and transparency have a better chance of receiving debt, which usually comes with larger firms. Funding determinants in Kuwait seems to largely follow international standards and benchmarks. Nonetheless, newer SMEs continue to face obstacles regardless of size. Accordingly, it is important for Kuwait's government to develop policy and incentives that support the creation of different means of funding for those newer firms, as they may have a hard time accessing capital from traditional lending sources such as largerbanks.

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# محددات تمويل الشركات الصغيرة والمتوسطة في الأسواق الحدودية: حالة الكويت

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تهدف هذه الدراسة إلى استكشاف محددات تمويل المشاريع الصغيرة والمتوسطة، وبشكل أكثر تحديداً العوامل على مستوى كل من المبادر والمشروع، التي تؤثر في الطلب على التمويل، وعقبات التمويل، والحصول على التمويل.

اعتمدت الدراسة على مقابلات واستبانات لفهم خصائص المؤسسين والشركات وكيفية تأثيرها في عملية الحصول على تمويل لمشروع صغير او متوسط.

شملت العينة 172 شركة صغيرة ومتوسطة في الكويت في عام 2019. وشملت العينة 55 مؤسسة (32 في المائة)، و 117 ذكراً (68 في المائة). 75% من أصحاب الشركات الصغيرة والمتوسطة كانوا أقل من 35 سنة. وفيما يتعلق بالخصائص على مستوى المشاريع الصغيرة والمتوسطة الحجم، فإن 62 في المائة من المشاريع تستخدم محاسباً، و67 في المائة دفعت أكثر من 10 000 دينار كرأس مال لبدء التشغيل، و57 في المائة من المشاريع الصغيرة والمتوسطة الحجم لديها أكثر من 10 موظفين، و80 في المائة من المشاريع الصغيرة والمتوسطة الحجم مدرة للدخل، و64 في المائة أجرت دراسة جدوى قبل بدء شركتها. 37% من الشركات الصغيرة والمتوسطة في عينتنا قد أنشئت لأكثر من خمس سنوات.

لا تواجه صاحبات المشاريع عقبات في التمويل أكثر من أصحاب المشاريع الذكور، ولا يقل احتمال حصولهن على التمويل؛ مما يشير إلى عدم وجود تمييز بين الجنسين. أصحاب المشاريع الإناث يطلبن نسبة أقل من التمويل. يرتبط تعليم المؤسس بالحصول على تمويل لمشروعه؛ بحيث يكون رواد الأعمال الحاصلون على تعليم عال أكثر عرضة للحصول على تمويل. ومن المرجح أن تحصل المشاريع الأكبر على التمويل أكثر من المشاريع الأصغر حجماً.

هذه الدراسة هي الأولى التي تبحث في العوامل المؤثرة على شروط تمويل المشاريع الصغيرة والمتوسطة في السوق الكويتي، كما أنها تبحث في مستويين من التحليل لتحديد العوامل الفردية (رائد الأعمال) التي تؤثر في شروط التمويل، وكذلك في العوامل على مستوى الشركة (الشركات الصغيرة والمتوسطة) التي تؤثر في شروط التمويل في الكويت. وبشكل عام، تشير نتائج الدراسة إلى أنه من المهم تطوير أدوات تمويل أكثر تخصصاً تخدم المشاريع الصغيرة والمتوسطة.

كما تشير نتائج الدراسة إلى أنه لا يوجد تمييز بين الجنسين عندما يتعلق الأمر بحصول أصحاب المشاريع الصغيرة والمتوسطة الحجم على تمويل. ومع ذلك، فإن احتمال طلب صاحبات المشاريع على التمويل أقل من الذكور؛ مما قد يتطلب بعض التدخلات لتشجيع الإناث على

الحصول على التمويل وتنمية مشاريعهن. وكان من الأسهل على الشركات الأكبر حجماً الحصول على تمويل، في حين لا تزال المشاريع الجديدة والصغيرة تواجه عقبات وتحديات كبيرة من حيث الحصول على التمويل.

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